Press release

4 October 2024

The General Board of the European Systemic Risk Board held its 55th regular meeting on 26 September 2024

At its meeting on 26 September 2024, the General Board of the European Systemic Risk Board (ESRB) noted that although inflation in the EU continued to decline, financial stability risks remain elevated amid heightened geopolitical risks and the still fragile economic recovery in the EU.

In particular, the General Board discussed the impacts of current geopolitical risks on the EU financial system. Geopolitical events may have financial stability implications via real and financial channels, creating challenges for both households and businesses. Such events can disrupt global trade and increase commodity prices. Moreover, they can also lead to higher market volatility, affecting capital flows, exchange rates and credit spreads. Members also discussed cyber risks, noting that reliance on a small number of third-party providers entails concentration risk and increases the potential for systemic shocks. Members called for increased focus and coordination within the regulatory community in relation to cyber risks.

The recent bouts of financial market volatility were also discussed in the General Board meeting. The sharp but brief market fluctuations in August showed how leveraged positions may amplify reactions to negative macroeconomic news, revealing structural vulnerabilities in the global financial system that could affect the financial stability of the EU. Persistent elevated risk-taking and the possibility of a swift unwinding of positions remain significant concerns. Redemption requests and margin calls have the potential to trigger forced asset sales, amplifying market stress.

The General Board also reviewed vulnerabilities and interconnections within the commercial real estate (CRE) sector. This sector – particularly the non-prime segment – remains fragile. Activity is low and non-performing loans are increasing, although generally from low levels. The CRE sector is also highly interconnected within both the bank and non-bank financial sectors. This reduces concentration risks but adds potential contagion

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channels. Besides these cyclical developments, structural challenges – such as post-pandemic shifts in demand, the increase in remote working and climate policy adjustments – have added to the sector's vulnerabilities.

Finally, the General Board also discussed the ESRB's response to the European Commission's consultation on macroprudential policy for Non-Bank Financial Intermediation (NBFI). The General Board acknowledged that the renewed momentum behind capital markets union (CMU) needs to be accompanied by a commensurate increase in the resilience of NBFIs and markets. Over the years the General Board has identified several areas where legislative action is needed to support financial stability and CMU. These areas include money market funds (MMF), other open-ended investment funds, preparedness for margin calls, and crypto-assets. In addition, the General Board has also identified the need to take a system-wide approach to macroprudential policy for NBFIs. Over the medium term greater regulatory consistency should be achieved by ensuring that when the same activities are performed by different types of financial entities they are still appropriately captured within the regulatory perimeter. Work is ongoing to examine how to achieve such consistency for: (i) the regulation of lending beyond the banking sector; (ii) asset management beyond investment funds; and (iii) the promotion of central clearing of government bond cash and repo markets through appropriate incentives. The ESRB will submit its response to the European Commission by the end of November and publish this on its website in due course.

The ESRB today released the 49th issue of its risk dashboard. The risk dashboard is a set of quantitative and qualitative indicators measuring systemic risk in the EU financial system.

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